

NFIB  
**TAX** **2021**  
**SURVEY**

## NFIB 2021 Tax Survey: Summary of Findings

### PURPOSE OF THE SURVEY

The Tax Cuts and Jobs Act of 2017 (TCJA) made several significant changes to the tax code that affected small business owners, including lowering the federal income tax rates, introducing a 20% passthrough deduction for certain small business owners (Small Business Deduction), and reducing the corporate income tax rate for most C-Corp businesses. While some of the key tax provisions introduced in this law are set to expire in 2025, federal policymakers are also considering increases to other taxes (e.g., capital gains tax, corporate tax, Small Business Deduction) to offset planned spending on a variety of initiatives.

To determine the impact of these provisions and their potential expiration or adjustments on U.S. small businesses, NFIB surveyed its members on various tax-related topics. The survey collected information on tax-related small business operations, small business owners' assessment on the overall financial and administrative burden of taxes paid, how TCJA-related changes have affected their businesses, and how the pending expiration or adjustments of certain provisions is generating an increasingly uncertain business environment.

The survey was conducted from June 3–11 and administered to a random sample of 20,000 NFIB members, of which 1,032 responded. Two-thirds of respondents employed less than 10 people, and a mix of industries were represented including services, retail, manufacturing, construction, and agriculture.

### SUMMARY OF KEY FINDINGS

Analysis of survey responses yielded the following major themes and key findings:

- **Respondents report significant financial and administrative tax burdens.** Responses showed a high variability in the financial and administrative burdens associated with different taxes, with federal income tax being the most burdensome, followed by payroll and state/local income taxes. These sentiments reflect other reports, including NFIB's 2020 Small Business Problems and Priorities survey in which four of the top 10 most burdensome issues for small business owners are tax related.
- **Respondents continue to report favorable views of the TCJA, but the scheduled expiration of many TCJA provisions is impacting future business decisions.** Of respondents who expressed an opinion, more than three-fourths believed the tax law had a positive impact on their business. Manufacturing and Construction businesses, businesses with more than ten employees, and non-C-Corp businesses were the most likely to describe the tax law positively. Nearly half of respondents (48%) reported the uncertainty of expiring tax provisions is impacting their current or future business plans, a dramatic increase from 16% of small business owners who reported the same in a 2019 NFIB tax survey.<sup>1</sup>
- **Most respondents plan to either sell their business or keep the business in the family.** More than half of respondents (52%) plan to sell their businesses when it's time to move on, and nearly one-third plan to

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<sup>1</sup> NFIB Research Center, *The Tax Cuts and Jobs Act: One Year Later, Part II*, September 2019.

pass their business to a family member (33%). However, potential changes in tax policy will impact these decisions. A proposed capital gains tax at the time of business inheritance would likely result in a significant financial burden for those inheriting a family business. Over two-thirds (38%) of respondents anticipate that family members inheriting the business would pay the tax by taking out a loan if saddled with a large tax and another 26% anticipate selling part of the business.

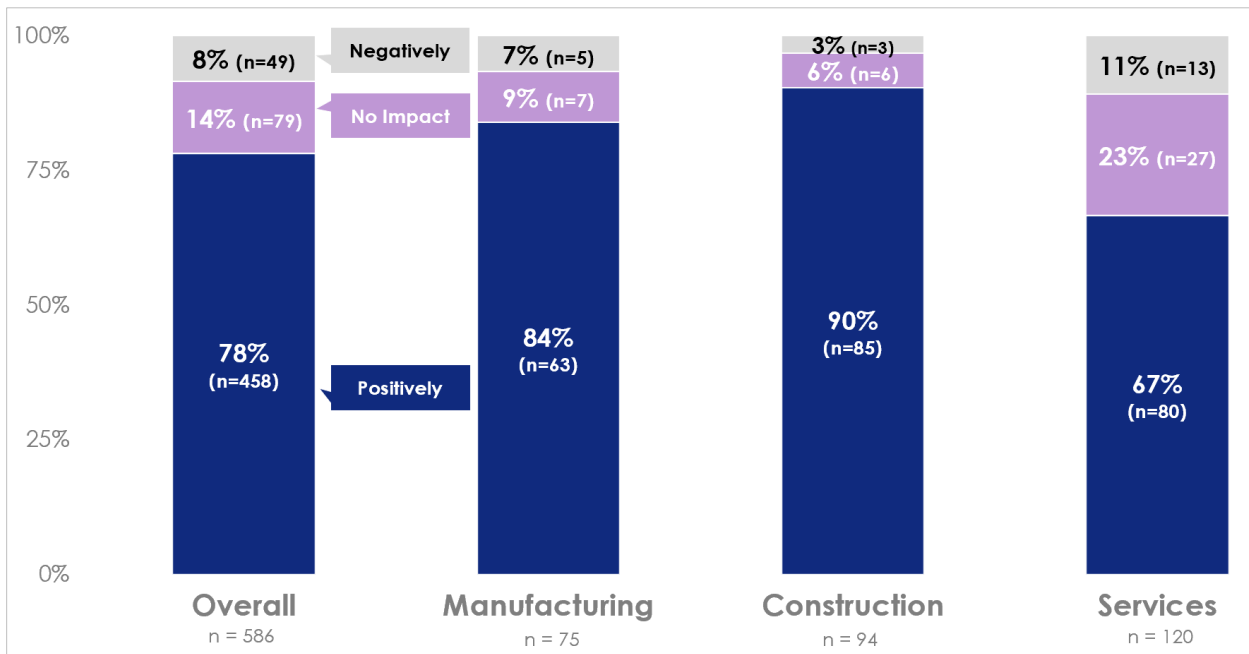
- **Most respondents started their business themselves, but 13% of them inherited it from a family member.** The longevity of family-owned businesses varies with 39% of respondents' businesses being first generation, and another 34% second generation. Over one-quarter (27%) of respondents with an inherited, family-owned business say that their business has been in the family for three or more generations.
- **Business income is crucial in supporting small business owners' household income.** The majority of respondents report that most of their household income comes from their primary business.

## RESPONDENTS VIEW TCJA FAVORABLY, MAKE USE OF RELEVANT PROVISIONS

Respondents were asked about the degree to which provisions introduced in the TCJA impacted their business. Of those who were impacted, nearly 80% described the tax law positively, compared to just 8% who had a negative view of the tax law. At the industry level, Manufacturing and Construction businesses had the most positive views on the tax law while Services companies were more tepid (see Figure 1). Other notable results included the fact that C-Corp businesses described the tax law negatively (15%) at three times the level of the survey baseline (5%), likely due to the elimination of the graduated corporate rate scale, including the lower 15% corporate tax rate for smaller businesses.

**Figure 1. Responses indicating overall impact of TCJA on respondents' businesses**

By industry, excluding "I don't know" responses.

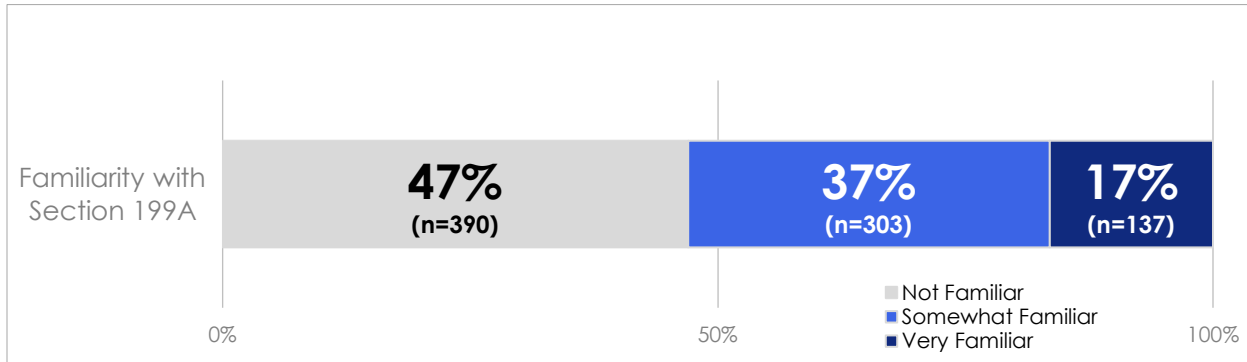


Over half (54%) of survey respondents (excluding C-Corp owners) indicated that they were at least somewhat familiar with the Small Business Deduction, the 20% tax deduction on qualified business income (see Figure 2). While a significant minority of owners indicated that they were unfamiliar with this particular provision, this is likely due to owners of small businesses not having as much one-on-one interaction with their tax preparer as do owners of larger businesses (see Section IV below).

Among respondents who were at least somewhat familiar with this deduction, the more familiar they were with it, the more likely they were to have knowingly claimed it — though it is worth noting that not all small firms are able to use the deduction due to the law's income threshold and Specified Service Trades or Businesses (SSTB) limitations. Specifically, 85% of respondents who were "very familiar" with the Small

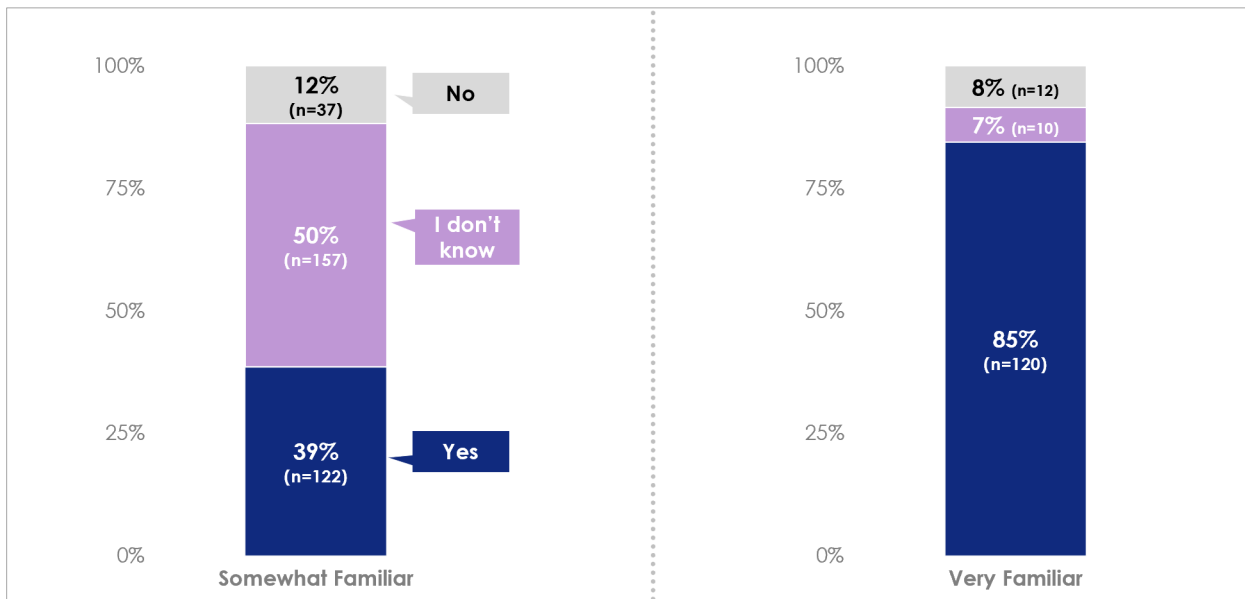
Business Deduction had claimed it, compared to 39% among “somewhat familiar” respondents (see Figure 3).

**Figure 2. Percent of respondents familiar with the 20% Small Business Deduction** Excludes C-Corp owners



**Figure 3. Respondents claiming 20% Small Business Deduction**

Grouped by familiarity with the deduction



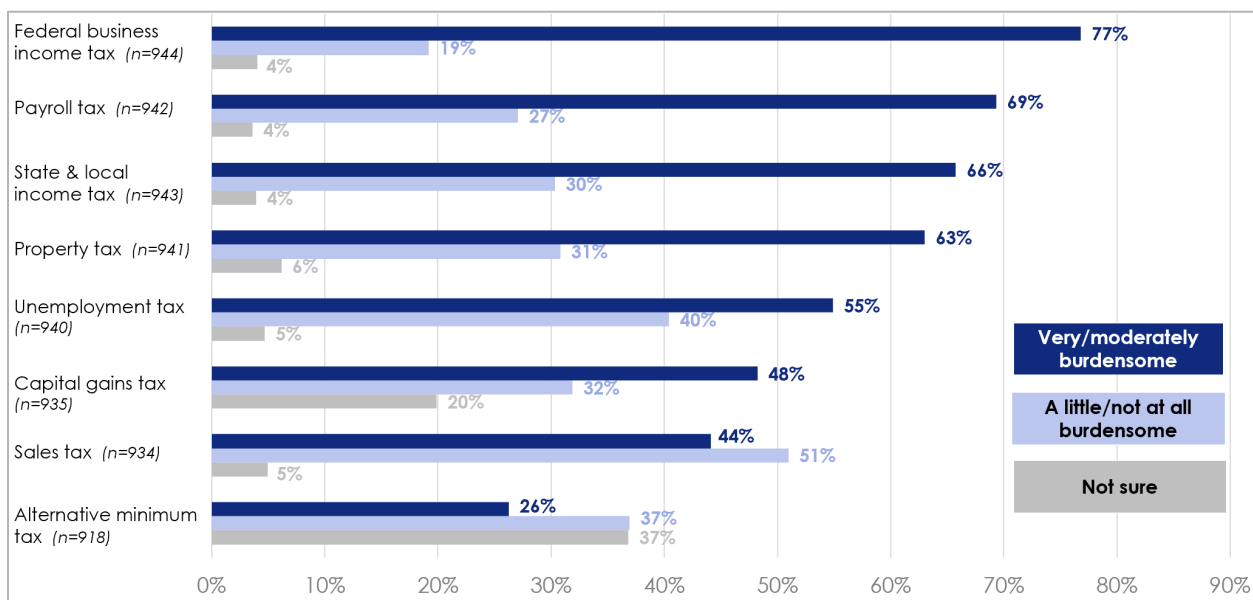
Notably, business owners were likely to report that uncertainty around the expiration of TCJA tax provisions was impacting their business plans regardless of whether they had knowingly claimed the Small Business Deduction. Specifically, 69% of respondents who had knowingly claimed the Small Business Deduction in the past five years reported that uncertainty was impacting their business plans. Given that over 75% of

respondents receive at least half of their household income from their primary business, this uncertainty can represent a significant pain-point for small business owners.

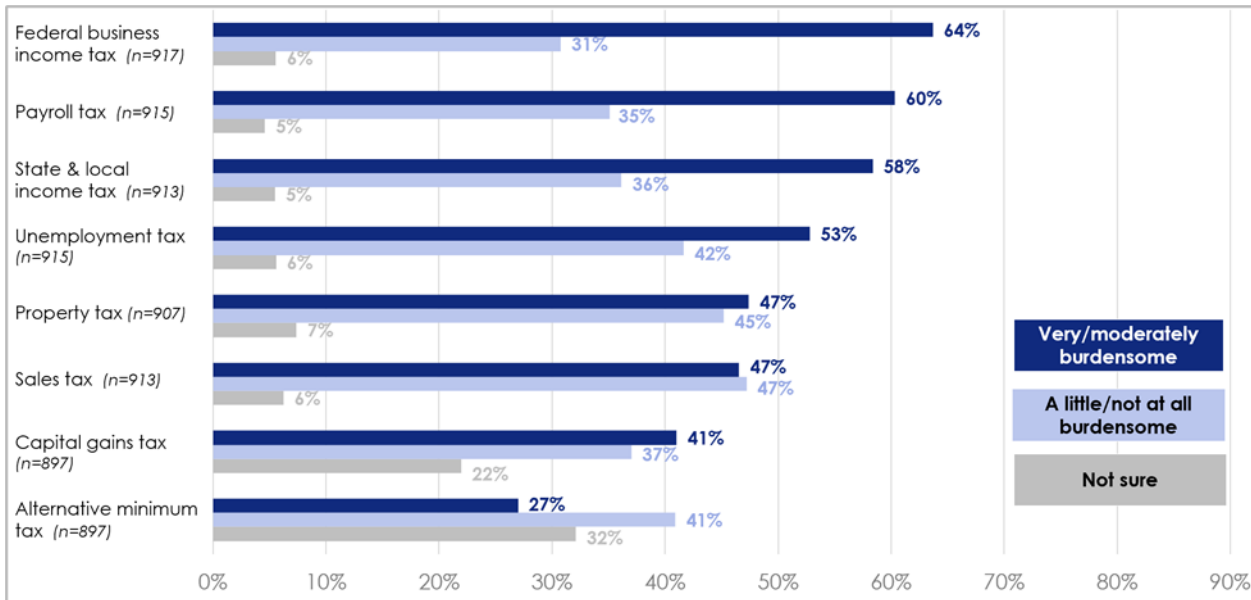
### FINANCIAL AND ADMINISTRATIVE BURDEN OF TAXES REDUCED BY KNOWLEDGE OF TCJA

One of the primary goals of this survey was to gauge the small business tax burden across a series of the most common taxes they face. Federal business income taxes were the most burdensome tax on both a financial and administrative basis according to survey respondents (see Figures 4 and 5). Payroll tax and state & local income tax were the other most burdensome taxes.

**Figure 4. Financial burden of different taxes reported by business owners.**



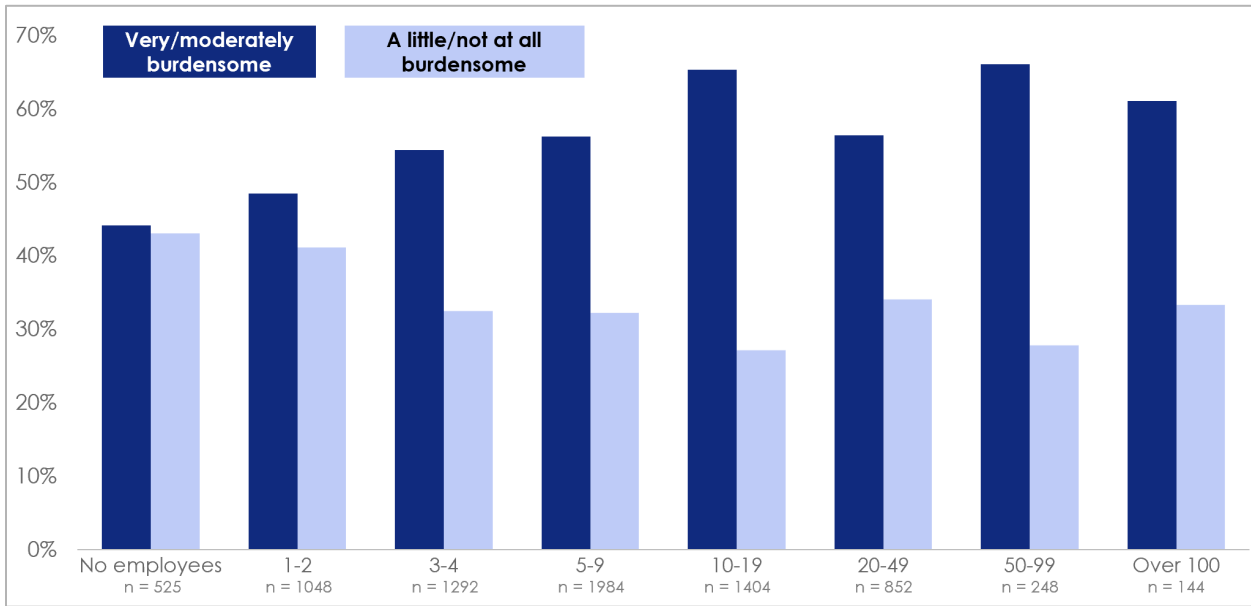
**Figure 5. Administrative burden of different taxes reported by business owners.**



While the amount of taxes paid is of significant concern for small business owners, so is the administrative responsibilities that are associated with each tax. The time and resources required to comply with each tax adds to the challenges small business owners face in operating their business. Nearly two-thirds of small business owners reported that the administrative burden of the federal tax code is significant. The administrative burden of payroll tax, and state and local taxes follow with 60% reporting the former a significant burden and 58% the latter. The unemployment tax is a significant burden for 53% of small business owners, a tax that may turn more burdensome in states that are pressing to increase unemployment insurance program funding after the pandemic.

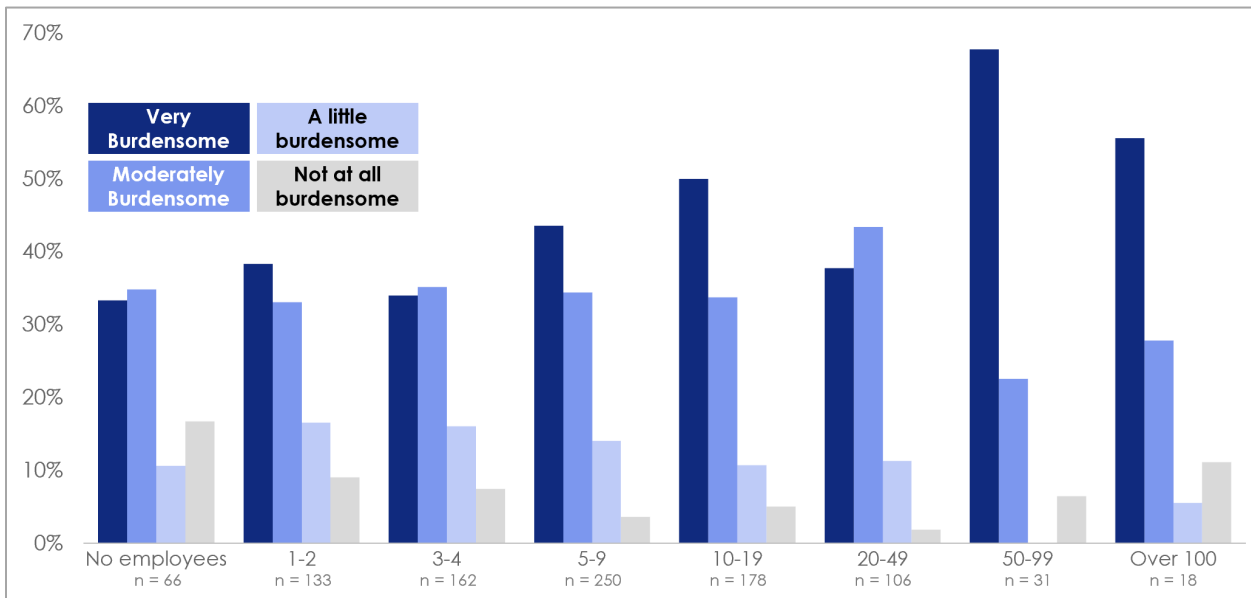
**Figure 6. Financial burden of taxes.**

By number of employees



**Figure 7. Financial burden of federal business income tax**

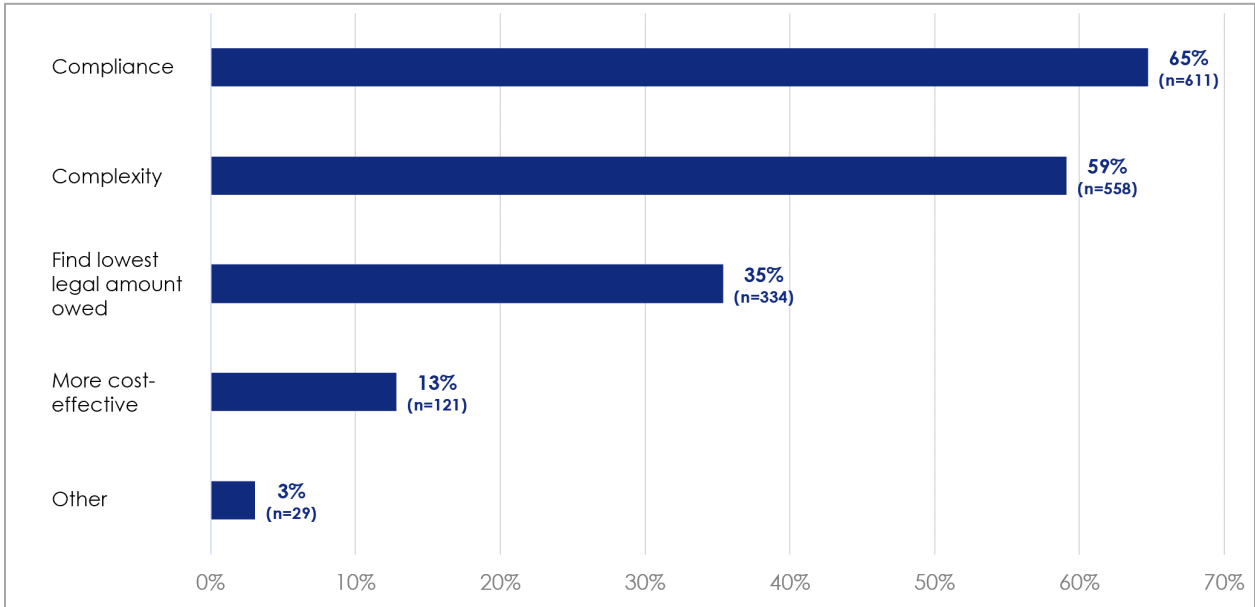
By number of employees





Given the tax burden felt by respondents, it is unsurprising that more than 90% use a tax professional to prepare and submit their taxes. Among this group, "compliance" and "complexity" were the two dominant factors leading business owners to use a professional (see Figure 8). Despite the high proportion of business owners enlisting the help of a tax professional, most respondents indicated a persistent administrative burden associated with preparing and paying their taxes. Specifically, as shown in Figure 5, more than 60% of respondents found the administrative burden of federal business income taxes and payroll taxes to be moderately or very burdensome.

**Figure 8. Major factors in deciding to use a tax professional**



Use of a tax professional was the preferred method for small business owners, irrespective of the number of people employed or industry. The widespread use of tax professionals to ensure compliance with tax laws may be eroding owners' familiarity with the tax provisions available to them (potentially affecting the results discussed in Section III), especially owners of smaller businesses. Owners of small businesses tend to be less hands-on in working with their tax professional than owners of larger businesses. While tax professionals are presumably ensuring their clients make use of all advantageous tax statutes, business owners may be unaware of what those statutes are or if/when they expire. Without a general picture of the overall tax landscape, owners run the risk of making suboptimal strategic or operational decisions.

## SUCCESSION PLANNING

The majority (52%) of small business owners plan to sell their business when they retire or move on from it. Additionally, about a third (33%) plan to pass it on to a family member when it's time to move on. Of the respondents who plan on passing their business on to family, half (49%) have talked to a tax professional already and 29% plan to but haven't yet. Many small business owners believe that if a capital gains tax were assessed on business inheritance, the next generation would have to take out a loan (38%) or sell part of the business (26%) to pay the tax. About a quarter (26%) believe the next generation would pay for the tax using savings or other income. Of the survey respondents, a little over half (55%) of business owners started their business and 13% inherited the business. Among those who inherited their business, most report that their business has been in their family for one or two generations. Sixteen percent of respondents reported their business being in their family for four or more generations.

## ANNUAL GROSS REVENUE AND NET INCOME

Survey respondents were asked to report their businesses' annual gross revenue and annual net income in 2020. Half of survey respondents reported their annual gross revenue of their primary business to be between \$100,000 to \$999,999. A little over a quarter (27%) of survey respondents had an annual gross revenue below \$100,000, with 7% under \$50,000. Additionally, about a third (32%) of survey respondents' primary business had an annual gross revenue of over \$2 million.

Survey respondents were also asked about their primary business' annual net income in 2020. About a fifth (22%) of small business owners reported an annual net income of less than \$25,000. Over half (65%) of survey respondents had an annual net income between \$25,000 and \$999,999 in 2020. Less than 1% of small business owners had an annual net income of over \$10 million.

In 2020, most small business owners had a somewhat or significantly lower (38%) or about the same (30%) net income than in 2019. About a third (31%) had a somewhat or significantly higher net income in 2020 than in 2019. The Paycheck Protection Program and other stimulus funds likely contribute to these results.

## CONCLUSION

Survey responses highlight small business owners' favorable view of the TCJA and the positive impact of the law's tax provisions. The survey also revealed that the pending expiration of the TCJA's pass-through deductions has introduced uncertainty into owners' future business plans, including succession planning. Small business owners would benefit from having these provisions made permanent — allowing these provisions to expire and the potential addition of new taxes impacting small business owners would present a blow to those businesses that have come to rely on a more favorable tax code over the past four years.

## APPENDIX A: QUESTIONNAIRE

### 1. Are you the owner of your primary business?

- Yes – 94.6%
- No – 5.4%

### 2. Is the business primarily:

- Male owned – 49.1%
- Female owned – 17.3%
- Equally male and female owned – 30.7%
- Prefer not to say – 2.9%

### 3. What is the primary industry of your primary business?

- Agriculture – 6.8%
- Construction – 14.1%
- Finance/Insurance/Real Estate – 8.7%
- Manufacturing – 10.4%
- Restaurant/Bar – 5.1%
- Retail – 14.2%
- Services – 22.8%
- Transportation/Warehousing – 2.6%
- Wholesale – 3.3%
- Other – 12.0%

### 4. How many people do you currently employ at your primary business?

- No employees – 6.8%
- 1-2 employees – 13.9%
- 3-4 employees – 17.1%
- 5-9 employees – 26.6%
- 10-19 employees – 18.7%
- 20-49 employees – 11.5%
- 50-99 employees – 3.3%
- 100-199 employees – 1.4%
- 200-499 employees – 0.4%
- Over 500 employees – 0.3%

### 5. Do you own the building or property where your business is located (not including your primary residence)?

- Yes – 64.6%
- No – 35.4%

### 6. What is the legal form of your primary business?

- Sole proprietorship – 13.1%
- Partnership – 1.2%
- LLC – 27.2%
- S-Corp – 41.1%
- C-Corp – 16.8%
- I don't know – 0.6%

**7. [If “LLC” for Q6] What is the legal form of your primary business for federal tax purposes?**

- Sole proprietorship – 31.0%
- Partnership – 27.2%
- S-Corp – 31.3%
- I don't know – 10.4%

**8. [If “C-Corp” for Q6] What is the main reason you have structured your primary business as a C-Corporation?**

- Tax Purposes – 22.5%
- Liability Purposes – 37.3%
- Legacy (it has always been that way) – 37.3%
- Other – 3.0%

**9. [If “C-Corp” for Q6] What was your effective federal corporate tax rate in 2016 (before the rate was changed in 2017 to a 21% federal corporate rate)?**

- 0 to 9.9% – 7.3%
- 10 to 14.9% – 4.0%
- 20 to 24.9% – 9.3%
- 25 to 29.9% – 12.0%
- 30 to 34.9% – 6.7%
- 35 to 39.9% – 2.7%
- 40% or more – 0.0%
- I don't know – 58.0%

**10. [If not “C-Corp” in Q6] Are you familiar with the 20% small business tax deduction on qualified business income (Section 199A, located on line 13 of your 1040 tax form for 2020)?**

- Very familiar – 16.5%
- Somewhat familiar – 36.5%
- Not familiar – 47.0%

**11. [If “Very” or “Somewhat” familiar in Q10] Have you claimed the 20% small business tax deduction in the past 5 years?**

- Yes – 53.2%
- No – 11.0%
- I don't know – 35.8%

**12. What method did you use to prepare your most recent tax return?**

- Professional tax preparer – 91.4%
- Tax software package – 4.1%
- Both a tax professional and tax software – 3.6%
- Neither a tax professional nor tax software – 0.8%

**13. [If used tax professional in Q12] What was the main reason you chose to use a tax professional? Please select all that apply.**

- More cost-effective than doing it myself – 12.8%
- Tax laws and requirements are too complex to do it myself – 59.1%
- I'd rather rely on a tax professional to assure compliance – 64.7%
- Tax professional is more likely to find lowest legal amount of tax owed – 35.4%
- Other – 3.1%

**14. What was your personal federal income tax filing status in 2020?**

- Single – 14.7%
- Married, filing jointly – 79.9%
- Married, filing separately – 2.6%
- Head of household – 2.7%

**15. Approximately what was your primary business' annual gross revenue (i.e., pre-tax) in 2020? If you have not filed your 2020 taxes, please estimate to the best of your ability.**

- < \$50,000 – 6.3%
- \$50,000 - \$99,999 – 7.5%
- \$100,000 - \$249,999 – 13.2%
- \$250,000 - \$399,999 – 10.3%
- \$400,000 - \$749,999 – 15.9%
- \$750,000 - \$999,999 – 10.1%
- \$1m - \$2.49m – 15.4%
- \$2.5m - \$4.99m – 7.6%
- \$5m - \$7.49m – 3.2%
- \$7.5m - \$9.99m – 1.4%
- \$10m+ – 4.7%
- I don't know – 4.5%

**16. Approximately what was your primary business' annual net income (i.e., after taxes / expenses) in 2020? If you have not filed your 2020 taxes, please estimate to the best of your ability.**

- < \$25,000 – 22.0%
- \$25,000 - \$49,999 – 15.9%
- \$50,000 - \$99,999 – 16.5%
- \$100,000 - \$249,999 – 17.5%

- \$250,000 - \$399,999 – 7.0%
- \$400,000 - \$749,999 – 5.8%
- \$750,000 - \$999,999 – 1.8%
- \$1m - \$2.49m – 2.4%
- \$2.5m - \$4.99m – 1.1%
- \$5m - \$7.49m – 0.3%
- \$7.5m - \$9.99m – 0.5%
- \$10m+ – 0.4%
- I don't know – 8.5%

**17. Was your 2020 net income higher, lower, or about the same as it was in 2019?**

- Significantly higher – 6.8%
- Somewhat higher – 24.0%
- About the same – 30.3%
- Somewhat lower – 18.5%
- Significantly lower – 20.3%

**18. How would you describe the impact of the 2017 tax law on your primary business?**

- Very positive – 26.7%
- Somewhat positive – 20.7%
- No impact – 8.2%
- Somewhat negative – 3.2%
- Very negative – 1.9%
- Not sure – 39.3%

**19. Most of the new tax law's personal and pass-through business (LLCs, S-Corp, Partnerships, Sole Proprietors) tax provisions expire in 2025 (e.g., federal income tax rates, 20% small business tax deduction). Does this uncertainty affect your current or future business plans?**

- Yes – 47.7%
- No – 24.4%
- I don't know – 27.9%

**20. What percent of your total household income comes from your primary business?**

- 1 to 25% – 8.8%
- 26 to 50% – 13.0%
- 51 to 75% – 19.5%
- 76 to 99% – 25.6%
- 100% – 33.1%

21. From the list below, please indicate the financial burden of each tax on your primary business:

Tax	Not at all burdensome	A little burdensome	Moderately burdensome	Very burdensome	Not sure
Payroll Tax	10.1%	17.0%	38.3%	31.0%	3.6%
Unemployment Tax	15.6%	24.8%	31.5%	23.4%	4.7%
Federal Business Income Tax	6.3%	12.9%	34.7%	42.1%	4.0%
State and Local Income Tax	10.9%	19.4%	31.5%	34.3%	3.9%
Sales Tax	30.2%	20.8%	24.1%	20.0%	4.9%
Alternative Minimum Tax	24.0%	13.0%	14.5%	11.8%	36.8%
Property Tax	14.0%	16.8%	28.7%	34.3%	6.2%
Capital Gains Tax	19.4%	12.5%	18.4%	29.8%	19.9%

22. From the list below, please indicate the administrative burden of each tax on your primary business:

Tax	Not at all burdensome	A little burdensome	Moderately burdensome	Very burdensome	Not sure
Payroll Tax	14.2%	20.9%	32.9%	27.4%	4.6%
Unemployment Tax	16.1%	25.6%	30.2%	22.6%	5.6%
Federal Business Income Tax	11.2%	19.5%	32.2%	31.5%	5.6%
State and Local Income Tax	15.7%	20.5%	31.8%	26.6%	5.5%
Sales Tax	26.6%	20.6%	24.5%	22.0%	6.2%
Alternative Minimum Tax	28.1%	12.8%	15.2%	11.8%	32.1%
Property Tax	22.4%	22.8%	24.0%	23.4%	7.4%
Capital Gains Tax	23.4%	13.6%	19.2%	21.9%	22.0%

**23. Do you use a third-party payroll provider?**

- Yes – 45.0%
- No – 53.7%
- Not sure – 1.3%

**24. [If “Yes” to Q1] When you retire or move on from your primary business, what do you plan to do with it?**

- Close it – 9.6%
- Sell it – 51.8%
- Pass it on to a family member – 32.5%
- Other – 6.1%

**25. [If “Yes” to Q1] Have you talked to a tax professional about estate planning as it relates to passing your primary business on to a family member?**

- Yes – 48.8%
- No – 21.8%
- Not yet, but will when the time comes – 29.4%

**26. [If “Pass it on to a family member” in Q24] Historically, property and other assets (including small businesses) that are inherited or passed on to family members are not subject to a capital gains tax (Note: a capital gains tax is a tax paid when an asset is sold at a price that exceeds the original purchase price). If tax laws were changed so that a capital gains tax was assessed on your primary business at the time of inheritance, how do you think your heir would pay the tax?**

- By selling part of the business – 25.5%
- By taking out a loan – 38.3%
- By using savings or other income – 25.5%
- Other – 10.7%

**27. [If “Yes” to Q1] How did you become the owner of your primary business?**

- Started the business – 54.9%
- Purchased the business (not from family) – 20.9%
- Inherited the business – 12.9%
- Bought into the business as a partner – 7.2%
- Other – 4.0%

**28. [If “Inherited the business” to Q27] How many generations has the business been in your family?**

- One generation (e.g., parent) – 38.8%
- Two generations (e.g., grandparent) – 34.5%
- Three generations (e.g., great-grandparent) – 11.2%
- Four or more generations – 15.5%